



**Roland W. Burris**

Comptroller  
State of Illinois

July 24, 1985

201 State House  
Springfield, Illinois 62706  
217/782-6000

PAYROLL BULLETIN  
(3-85)

TO: All State Agencies, Departments, Boards Commissions  
and Universities

SUBJECT: Personal Use of State Vehicle Income

Recent federal rules will require employers, including the State of Illinois, beginning January 1, 1985, to treat the fair market value of employee "personal use" of company (State) vehicles as a taxable fringe benefit to be included in the employee's income. (See Exhibit III for guidance in determining fair market values.) First reporting of 1985 personal use income must begin as soon as possible but no later than December 15, 1985, if annual reporting is opted. The rules require that social security taxes, where applicable, must be withheld. The employing agency must withhold federal and state taxes unless it elects not to, in which case it must notify its employees of this election by January 1 of the year for which the election is to apply. August 1, 1985, will be the notification due date for 1985. If the agency elects not to withhold for federal income tax, it will not withhold for state income tax. If the agency elects to withhold for federal income tax, it must also withhold for state income tax. Exhibits I and II are samples of notification the State agency may use if it decides not to withhold federal income tax or report this vehicle usage income on an annual basis. Vehicle usage income is also subject to withholding for retirement. Employer contributions to retirement and social security must also be paid.

For those agencies which will withhold taxes, calculation of federal income tax withholding depends upon when the income is reported. When income attributable to personal use of State vehicles is reported each pay period, such amount will be added to the employee's regular income (for calculating taxes only) and withholding will be calculated from the tax tables. When income attributable to the personal use of State vehicles is reported less frequently, such as quarterly, it may be treated as a supplemental payment with withholding at a 20% rate on this income. All state withholding and withholding taxes on regular wages will continue to be calculated by using the tax tables. In order to avoid hardship to employees, we would suggest that this income be reported each pay period.

#### General Employer Substantiation Requirements

Each agency must obtain documentation from its employees sufficient to allow proper computation of the amount of the personal use portion to be included in income. This information may consist of a statement summarizing underlying data. Each agency must retain this information for a minimum of three years after it is provided and may rely on it unless there is reason to believe it is false. Employees must keep adequate records to respond to tax return questions and should use the response data or summary to report the above personal use information to their employer. The tax return questions which will appear on tax returns for years beginning in 1985 will generally consist of these questions:

- a. Total number of miles driven during the year.
- b. Percentage of personal use claimed.
- c. Whether or not the vehicle was used for commuting and the normal commuting distance.
- d. Whether or not the vehicle was available for other personal use.
- e. Whether or not another (privately owned) vehicle was available for personal use.
- f. Whether or not adequate records or sufficient written evidence are available to justify the deductions.

#### Vehicles Not Available For Personal Use

(Generally Pool Cars)

An agency which has a policy of no personal use may satisfy its substantiation requirements if the written policy statement meets certain rules. In order to be eligible for this rule, all of the following conditions must be met:



- a. The vehicle is owned or leased by the State and is provided to one or more employees for use in connection with the State's operation.
- b. When the vehicle is not being used for such business purposes, it is kept on the State's premises (or temporarily located elsewhere, e.g., for repair).
- c. Under the agency's written policy, no employee may use the vehicle for personal purposes, other than de minimis personal use (such as a stop for lunch between two business trips).
- d. The agency reasonably believes that no employee uses the vehicle, other than de minimis use, for any personal purposes.
- e. No employee using the vehicle lives at the State's business premises.
- f. There is evidence that would enable the Internal Revenue Service to determine whether the use of the vehicle meets the five preceding conditions.

It would appear that standard internal policy controls monitoring assignment and use of vehicles would satisfy the last condition. Generally, pool cars will not result in any income to a State employee.

#### Vehicles Not Available For Personal Use Except Commuting

(Generally vehicles assigned to Specific Employees)

An agency which has a policy of no personal use except commuting may satisfy its substantiation requirements if the written policy statement meets certain rules. In order to be eligible for this special rule, all of the following conditions must be met:

- a. The vehicle is owned or leased by the State and is provided to one or more employees for use in connection with the State's operations.
- b. For bona fide noncompensatory operational reasons, the agency requires the employee to commute to and/or from work in the vehicle.
- c. The agency establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (such as a stop for a personal errand between a business delivery and the employee's home).

- d. The agency accounts for the commuting use by including an appropriate amount (specified in Treasury regulations) in the employee's gross income.
- e. There is evidence that would enable the Internal Revenue Service to determine whether the use of the vehicle meets the four preceding conditions.

If the above conditions can be met the income derived by the employee for personal use of a State vehicle can be calculated at a rate of \$3.00 per working day.

Vehicles For Which The Entire Value Is Included In The Employee's Income

An agency may include the entire lease value of the vehicle in the employee's income. This would transfer the substantiation requirements to the employee. The agency may reimburse the employee for business use, and if adequate accounting is made to the agency for the business use, this reimbursement will not be treated as income.

Exception For Vehicles Ordinarily

Not Susceptible To Personal Use

Agency provided vehicles which are of a type not likely to be used for personal purposes are exempt from income inclusion rules and are therefore exempt from substantiation rules. Examples of such vehicles are:

- a. Clearly marked police cars, fire vehicles and officially unmarked law enforcement vehicles operated by State officers.
- b. Delivery trucks with seating only for the driver, or only for the driver plus a folding jump seat.
- c. Flat bed trucks.
- d. Any vehicle designed to carry cargo with a loaded gross weight of over 14,000 pounds.
- e. Passenger buses used as such with a capacity of at least twenty passengers.
- f. Ambulances used as such or hearses used as such.
- g. Bucket trucks ("cherry pickers").
- h. Cranes and derricks.
- i. Forklifts.
- j. Cement mixers.



- k. Dump trucks (including garbage trucks).
- l. Refrigerated trucks.
- m. Tractors.
- n. Combines.
- o. Vans that have only a front seat in which permanent shelving has been installed which constantly carry merchandise and which are specially painted or have decals indicating they are State vehicles.
- p. School buses.
- q. Qualified specialized utility repair trucks.
- r. Qualified moving vans.

Agencies which have employees who will be affected by these new rules may wish to review government publications which deal with this subject so they may keep current on developments.

#### SUMMARY

- 1. State employees who use State vehicles for personal reasons will have added to their taxable incomes the fair market value of such use.
- 2. Except as provided in Paragraph 4, such income is subject to withholding for federal income tax, state income tax, FICA (where applicable), and retirement, and the State must contribute to retirement and social security. Such income is also subject to reporting for FUTA tax purposes where applicable.
- 3. Such income should be considered for maximum FICA wage withholding.
- 4. An agency may elect not to withhold federal and state income taxes, however, it must notify its employees by January 1 of the year the election is to apply. August 1, 1985, will be the date of notification for calendar year 1985.
- 5. Agencies may report income from personal use each pay period or less frequently, but not less than annually.
- 6. Agencies which elect to withhold income taxes may calculate the federal tax as follows: If reporting is made each pay period, the income attributable to vehicle usage will be added to the regular wages (for tax purposes only), and withholding will be derived from the tax tables. If reported less frequently such as quarterly, such income can be treated as a supplemental wage payment, and withholding should be calculated at 20% of this income.

Federal withholding on the regular wages will be calculated using the tax tables. State withholding will all be calculated using the tax tables.

COMPTROLLER'S PROCEDURES

1. Any income attributable to the personal use of employer provided vehicles will be placed in fields 85 and 86 of the hard copy payroll voucher.
2. For those agencies which submit vouchers on magnetic tape, this amount will also be placed in tape positions 861 through 867 in the format S9(5)V99.
3. This income should not appear in the gross or net amount fields. This income, however, should be included when calculating taxes, FICA, retirement and the State's contributions to FICA and retirement. There will be no trailer records for vehicle usage income.
4. If a reversal must be made on an employee who had vehicle usage income reported, the reversal can be made only for the amount of the actual withholdings which are to be reclaimed. YOU CANNOT REVERSE VEHICLE USAGE INCOME. The amount of such income that should not be reported on the employee's W-2 should, however, be noted on Salary Refund Form C-65 on one of the blank lines.
5. Vehicle usage income cannot be reported on a payroll voucher for an employee unless that employee is also being paid regular wages and/or overtime.

For agencies which report vehicle usage income on employees and which do not submit vouchers on magnetic tape, the following fields for those employees will be zeroed out on the pre-list:

1. Federal income tax.
2. State income tax.
3. Social Security.
4. Retirement.
5. Earned Income Credit.
6. Net Pay.

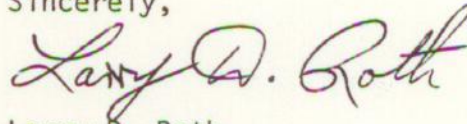


The amount shown in the base pay field will also be shown in the gross pay field.

A follow-up payroll bulletin will be issued in the near future which will deal with employees who terminated and are subject to these rules.

Questions concerning this Bulletin relating to vehicle types and permitted uses should be directed to Mr. J. Stephen Hall of the Department of Central Management Services. Mr. Hall may be reached at (217) 782-2535. Questions concerning income recognition and tax withholdings should be directed to Mr. Dan Steven of the Office of the Comptroller. Mr. Steven can be reached at (217) 782-4758. Should you have any questions concerning the Internal Revenue Service Regulations, please contact the IRS or your tax advisor.

Sincerely,

A handwritten signature in cursive script, reading "Larry D. Roth". The ink is dark and the signature is fluid.

Larry D. Roth  
Director of State Accounting

EXHIBIT I

NOTIFICATION OF EMPLOYER ELECTION

NOT TO WITHHOLD FEDERAL INCOME TAX

For calendar year 1985, we elect not to withhold federal and state income taxes on the amount of income to be included in your Form W-2 resulting from personal use of an employer-provided vehicle.

This election does not affect your liability for timely payment of federal and state income taxes on this income. You should therefore consult your tax advisor about increasing the amounts withheld on other compensation or other alternatives for payment of these taxes.



## EXHIBIT II

### NOTIFICATION OF EMPLOYER ELECTION OF ANNUAL REPORTING OF VEHICLE PERSONAL USE INCOME

For calendar year 1985, we elect to report the additional income from personal use of employer-provided vehicles on an annual basis. This means that these amounts (covering the period December 16, 1984 through December 15, 1985) will be considered as having been paid to you in December, 1985. All required social security, federal and state income taxes and retirement will be withheld during December.

If your employment should terminate before this income is scheduled to be reported and taxes are withheld, the above procedure will change to:

1. Report the additional income in the last pay period of employment, and
2. Withhold social security tax, federal and state income taxes and retirement on the additional income from your final paycheck(s).

## EXHIBIT III

ANNUAL LEASE VALUE TABLE

<u>Automobile fair market value</u>	<u>Annual lease value</u>
\$ 0 - 999	\$ 600
1,000 - 1,999	850
2,000 - 2,999	1,100
3,000 - 3,999	1,350
4,000 - 4,999	1,600
5,000 - 5,999	1,850
6,000 - 6,999	2,100
7,000 - 7,999	2,350
8,000 - 8,999	2,600
9,000 - 9,999	2,850
10,000 - 10,999	3,100
11,000 - 11,999	3,350
12,000 - 12,999	3,600
13,000 - 13,999	3,850
14,000 - 14,999	4,100
15,000 - 15,999	4,350
16,000 - 16,999	4,600
17,000 - 17,999	4,850
18,000 - 18,999	5,100
19,000 - 19,999	5,350
20,000 - 20,999	5,600
21,000 - 21,999	5,850
22,000 - 22,999	6,100
23,000 - 23,999	6,350
24,000 - 24,999	6,600
25,000 - 25,999	6,850
26,000 - 27,999	7,250
28,000 - 29,999	7,750
30,000 - 31,999	8,250
32,000 - 33,999	8,750
34,000 - 35,999	9,250
36,000 - 37,999	9,750
38,000 - 39,999	10,250
40,000 - 41,999	10,750
42,000 - 43,999	11,250
44,000 - 45,999	11,750
46,000 - 47,999	12,250
48,000 - 49,999	12,750
50,000 - 51,999	13,250
52,000 - 53,999	13,750
54,000 - 55,999	14,250
56,000 - 57,999	14,750
58,000 - 60,000	15,250